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# The Loan Arranger

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Fall/Winter 2006

Revolving Loan and Operator Certification Section  
Environmental Science and Services Division  
Michigan Department of Environmental Quality **DEQ**

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## Looking to Fiscal Year 2007 and Beyond by Chip Heckathorn

Fiscal Year 2007 will usher in a real change in the complexion of two of the revolving loan funds in Michigan. Whereas demand for assistance in the Drinking Water Revolving Fund (DWRF) has remained moderate, demand for assistance in the SRF and SWQIF is beginning to look quite different. Consider the following:



### Drinking Water Revolving Fund

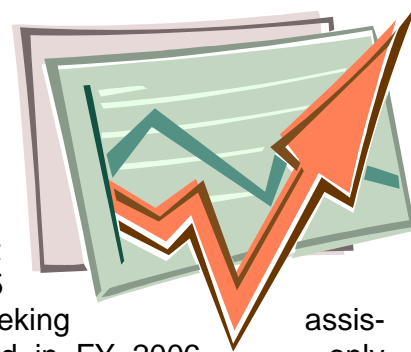
Applications seeking assistance in FY 2007 total slightly over \$76 million, a very small increase from the prior year. As the fund matures, lending capacity continues to grow. Assuming static interest rates and a stable flow of Federal capitalization, the fund is capable of providing over \$100 million/ year in loan assistance. As a result, all DWRF projects seeking assistance in FY 2007 have been notified they are in the fundable range. Loan demand in future years remains somewhat uncertain.

### Strategic Water Quality Initiatives Fund

Although FY 2007 SWQIF demand remains low, with only two applicants seeking a total of about \$2.4 million, numerous communities with “wet sanitary systems” have embarked on project planning efforts, many of them through the S2 Grant Program. These efforts will identify the appropriate remedy for surcharged systems and sanitary sewer overflow problems, and many are likely to include efforts to reduce clearwater contributions from private property. These projects are likely to be eligible for SWQIF assistance, and it is anticipated that demand in future years will substantially increase. Our capacity to lend from the SWQIF was significantly reduced when \$40 million was transferred to the S2 grant program last year, leaving our ability to satisfy SWQIF loan demand in future years somewhat uncertain. Current lending capacity rests at @ \$12 million/year.

### State Revolving Fund

The SRF has witnessed the most dramatic change. From FY 2003 through FY 2006 Michigan's Project Priority List averaged \$215 million in projects seeking assistance each year and in FY 2006 only \$96 million in loan assistance was tendered. In FY 2007, nearly \$600 million in projects anticipate completing the application process. We project this level of demand will persist, at least for the next 4 or 5 years. With annual capitaliza-



tion from the Federal government declining, fully addressing demand in FY 2007 will require utilizing a significant amount of capitalization from Michigan's Great Lakes Water Quality Bond Fund. In the face of this unprecedented level of demand, future year applicants should anticipate higher SRF loan interest rates.

All three revolving funds face significant challenges as we begin FY 2007.

### **SRF and DWRF Requirements for Single Audit Act**

Since the State Revolving Fund and Drinking Water Revolving Fund are capitalized, in part, with grant funds awarded to Michigan from the U.S. Environmental Protection Agency, loan assistance receiving by local units of government will normally consist of some amount of "federal" assistance. The receipt of federal fund carries with it a very specific obligation regarding accounting/audit practices. The following guidance is posted on the program web pages to assist SRF&DWRF recipients:

**Single Audit Act Requirements; Office of Management and Budget Circular A-133.**



On November 6, 2001, the U.S. Environmental Protection Agency (EPA) clarified Single Audit Act (SAA) and Office of Management and Budget (OMB), Circular A-133 (Revised, June 27, 2003), requirements as they apply to loans made from the Drinking Water Revolving Fund (DWRF) and State Revolving Fund (SRF). EPA Program Guidance states that funds "directly" made available from DWRF or SRF capitalization grants are to be considered federal funds. Funds drawn for a DWRF or SRF loan will often, at least in part, be considered federal funds. OMB Circular A-133, requires any non-federal entity expending \$500,000 or more in federal funds from any source in a fiscal year to comply with the requirements of the Single Audit Act and the Circular.

The SAA and OMB Circular A-133 specify that the reporting threshold is met when a sub-recipient's (in this case the recipient of an SRF or DWRF loan) expenditures of any federal funds exceed the \$500,000 threshold during a fiscal year. For the purposes of the DWRF and SRF, an expenditure occurs at the time that funds are disbursed by the loanee/sub-recipient for the purpose of which the assistance is provided (i.e., construction.) Non-federal entities meeting that threshold must have a single audit conducted for that year.

This single audit must be performed and copies provided to the MDEQ within nine months from the end of the entity's fiscal year.

In order to ensure that the SRF/DWRF programs are included in the Single Audit activities, it is the responsibility of the non-federal entity to report the federal financial assistance related to this program on its annual Schedule of Expenditures of Federal Awards. The specific amount of each draw considered to be federal funds and that must be reported on the Schedule is identified in the loan draw confirmation letter transmitted to the loan recipient by the Michigan Municipal Bond Authority (MMBA).

Questions can be directed to your project manager or MMBA staff.

**Thoughtful planning now may enable a community to be ready to apply for DWRF, SWQIF, and/or SRF assistance in FY08 and beyond. Contact the Revolving Loan and Operator Certification Section (addresses on back page) for more information on community participation in the loan programs.**

## DEQ Announces Loan Commitments



Department of Environmental Quality Director Steven E. Chester announced eight loans; three in the State Revolving Fund (SRF) and five on the Drinking Water Revolving Fund (DWRf) side, in the third quarter (June) of fiscal year 2006 at \$34.5 million and then recently (September) announced eleven fourth quarter loan commitments from the revolving fund programs. The SRF and SWQIF programs provide low-interest financing for local units of government to make needed improvements to wastewater collection and treatment facilities, while assistance from the DWRf finances improvements to public drinking water systems. The 4<sup>th</sup> quarter loans announced total \$55.3 million.

"We continue to make much needed progress in protecting and enhancing Michigan's water resources," said Director Chester. "These funds give communities the needed resources to make improvements, and represent a real investment in Michigan's environmental and economic future."

The funded SRF projects include:

- The sum of \$6,030,000 to the city of Three Rivers for improvements to its wastewater treatment plant, including a capacity expansion, for which construction was completed in 2003. The SRF loan will provide for the refinancing of bonds initially sold by the city to construct the improvements.
- A loan of \$2,815,000 to Genesee County for the third in a series of projects to provide interceptor relief for the sewer sys-



tems tributary to the Anthony Ragnone Wastewater Treatment Plant. The system serves 24 communities in Genesee, Saginaw, and Shiawassee counties. The relief sewers will eliminate sanitary sewer overflows currently occurring during wet weather.

- Assistance of \$2,200,000 to the city of Bangor for the upgrade and expansion of the city's wastewater lagoons. The funds will be used to refinance a Rural Utilities Service loan used to construct the project.
- Loan assistance of \$1,575,000 to the city of Saginaw for improvements to the city's wastewater treatment plant. Second in a projected series of three projects, the funds will be used to replace and upgrade pumps within the facility.
- A loan of \$14,000,000 to Muskegon County for the replacement of a major pump station in the county's Metro Wastewater System. The system serves 13 local units of government and has 41 significant industrial users.
- Loan assistance of \$12,025,000 to Van Buren Charter Township in Wayne County, for the construction of a wastewater equalization basin. The facility will allow the township to equalize flows during high flow periods and avoid exceeding contract capacities with treatment providers.

These commitments bring SRF financing awarded to Michigan communities to date, to over \$2.35 billion.

These projects are further examples of the commitments being made by local units of government in Michigan to ensure protection of the state's valuable water resources and the public health of its citizens.



The funded DWRf projects include:

- The sum of \$4,900,000 to St. Clair County to replace deteriorated water mains in Ira Township.
- A \$3,475,000 loan to the city of Ferndale for construction of improvements to its water distribution system, including the replacement of deteriorated water mains,

the looping of dead ends, and the upgrade/replacement of booster stations.

- A loan of \$2,040,000 to the city of Port Huron to install a filter backwash handling system at its water treatment plant. To date, the city has received 14 loans totaling over \$29 million from the DWRF.
- A \$6,035,000 loan to the city of Detroit. The loan will finance the replacement of aged water mains in the Northeast and Lower Northwest areas of the city.
- The sum of \$205,000 to Barry County to construct a new supply well for the village of Middleville. In combination with an earlier DWRF loan, this project will complete needed improvements to the village's water system.

The improvements financed by these loans will ensure compliance with the requirements of the Safe Drinking Water Act and protect the public health of system users in these communities. Since the inception of Michigan's DWRF program in 1998, nearly \$418 million in assistance has been tendered.

### Interest Rates Set for Fiscal Year 2007

The Department of Environmental Quality (DEQ) and the Michigan Municipal Bond Authority have set the interest rates for the three revolving loan funds, the State Revolving Fund (SRF), the Drinking Water Revolving Fund (DWRF), and the Strategic Water Quality Initiatives Fund (SWQIF) programs, for Fiscal Year 2007. These rates are effective through September 20, 2007, and remained unchanged from Fiscal Year 2006.

Loan Program	Interest Rate
SRF	1.625%
DWRF	2.125%
SWQIF	1.625%

These rates are based upon the demand for financing in the coming year, anticipated future demand for financing, consideration of market interest rates available

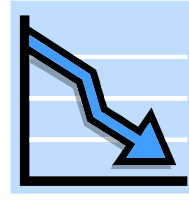


for borrowers, and evaluation of additional costs to borrowers for program participation in each fund. Although these factors are all exerting an upward pressure on program interest rates, rates will remain at Fiscal Year 2006 rates. With program demand escalating, particularly in the SRF and SWQIF programs, an increase in loan rates in Fiscal Year 2008 and future years seems likely.

These rates will be incorporated into the State's Intended Use Plans for submission of capitalization grant applications, in accordance with the 1987 amendments to the federal Clean Water Act, and the 1996 amendments to the federal Safe Drinking Water Act.

### Discount Rates set for 2007

The Environmental Protection Agency has set the discount rate for Fiscal Year 2007. For project planning that begins on or after October 1, 2006, a discount rate of **4 7/8 percent** (0.04875) should be used. This rate is ¼ point below that used for planning that began in Fiscal Year 2006, and continues a trend of decreasing rates that started in 1990.



Remember, this is NOT a rate that should be used to calculate debt retirement needs, but rather is used in cost effective analyses to "bring" future expenditures back into today's dollars for total present worth or equivalent annual cost comparisons.

### Deadlines for Submission of Project Plans for the Fiscal Year 2008

#### Project Priority Lists:

#### Drinking Water Revolving Fund –

Project Plans must be received in our office by close of business OR postmarked no later than May 1, 2007.

**State Revolving Fund/Strategic Water Quality Initiatives Fund–** Project Plans must be received OR postmarked no later than July 1, 2007.



## Great Lakes Water Quality Fund Grants Awarded



The Departments of Environmental Quality and Treasury today announced the award of 67 grants to Michigan communities to assist with the completion of needed water quality improvement efforts. Totalling nearly \$26.4 million, these funds will cover up to 90 percent of the costs incurred by local units of govern-

ment to complete the planning and design efforts required to apply for construction loan funding from the state's clean water revolving fund programs.

The Michigan Legislature created the State Revolving Fund/Strategic Water Qualities Initiatives Fund, or "S2" Grant Program, in December, 2005 and approved the transfer of \$40 million from the Great Lakes Water Quality Bond Fund. Applications are currently under review for the remaining \$13.6 million.

S2 grant assistance is only available to communities intending to access the State Revolving Fund (SRF) or the Strategic Water Quality Initiatives Fund (SWQIF) to finance project construction.

"We are pleased to provide S2 grant assistance to these communities in order to facilitate infrastructure improvements across the state," said DEQ Director Steven E. Chester. "This program will ultimately help communities protect and enhance our state's vast water resources."

The SRF, which provides below market rate loan financing for the construction of wastewater infrastructure and non-point source water quality improvement projects, has been in operation in Michigan since 1988. Joined by the SWQIF in 2002, which funds wastewater system improvements undertaken on private property, these

programs have tendered nearly \$2.4 billion in loan assistance to Michigan communities to date.

The S2 grants and the revolving fund programs are jointly administered by the DEQ and the Michigan Municipal Bond Authority within the Department of Treasury.

"The S2 Grant Program will help local communities gain access to the SRF loan program and its low interest rate loans," said State Treasurer Robert J. Kleine. "With the current loan rate at 1.625 percent, we anticipate that a number of communities will take advantage of this program to accelerate the completion of important wastewater projects."

A list of the S2 Grant award recipients is available on the DEQ Web page at:



<http://www.deq.state.mi.us/documents/deq-essd-mfs-S2-awards07.pdf>.



If you know someone, who would like to be added to *The Loan Arranger* mailing list, or have an address change, please e-mail the editor, Ms. Deana M. Kinney, at [Kinneydm@michigan.gov](mailto:Kinneydm@michigan.gov)

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